

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hanover-Horton Schools	County Jackson
Fiscal Year End June 30, 2006	Opinion Date July 17, 2006	Date Audit Report Submitted to State September 25, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|--|--|---|
| YES | NO | |
| Check each applicable box below. (See instructions for further detail.) | | |
| 1. | <input checked="" type="checkbox"/> <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.. |
| 3. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Karl L. Drake, CPA			Telephone Number 517-937-9333	
Street Address 3775 Kimmel Road		City Horton	State MI	Zip 49246
Authorizing CPA Signature 		Printed Name Karl L. Drake		License Number 1101016526

**HANOVER-HORTON
SCHOOL DISTRICT**

**FINANCIAL
STATEMENTS**

JUNE 30, 2006

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2006

Board of Education

Kathie Michel	President
Leon Densmore	Vice President
Chris Murphy	Secretary
Kirk Mercer	Treasurer
Charles Snow	Board Member
Brian Brockie	Board Member
Chris Vincent	Board Member

Management

Linda Brian	Superintendent
Andrienne Spencer	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney
Rosenfeld, Grover, and Frang, P.C.	Attorney

HANOVER-HORTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hanover-Horton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and 28-31 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hanover-Horton School District

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2006 on our consideration of Hanover-Horton School District's internal control over financial reporting and out tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements, and statistical data, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Hanover-Horton School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.
Certified Public Accountant

July 17, 2006

HANOVER–HORTON SCHOOL DISTRICT

Management’s Discussion and Analysis

This section of Hanover-Horton School District’s annual financial report presents discussion and analysis of the School District’s financial performance during the year ended June 30, 2006. It is best read in conjunction with the School District’s financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hanover–Horton School District financially as a whole. The *District-Wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the district-wide financial statements by providing information about the School District’s most significant funds - the General Fund, Debt Funds, and Capital Projects Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management’s Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net assets and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities - The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE 1	Governmental Activities	
	(In Millions)	
	2006	2005
ASSETS		
Current and other assets	\$ 3.2	\$ 4.2
Capital assets - Net of accumulated depreciation	9.9	9.4
TOTAL ASSETS	13.1	13.6
LIABILITIES		
Current liabilities	1.7	1.7
Long-term liabilities	7.7	8.2
TOTAL LIABILITIES	9.4	9.9
NET ASSETS		
Invested in property and equipment - Net of related debt	1.6	0.6
Restricted	0.2	1.1
Unrestricted	1.9	2.0
TOTAL NET ASSETS	\$ 3.7	\$ 3.7

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3.7 million at June 30, 2006. Capital assets, net of related debt totaling \$1.6 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1.9 million) was unrestricted.

The \$1.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

TABLE 2	Governmental Activities	
	(In Millions)	
REVENUE	2006	2005
Program Revenue		
Charges for services	\$ 0.7	\$ 0.7
Grants and categoricals	0.5	0.5
General Revenue		
Property taxes	1.7	1.4
State foundation allowance	8.7	8.7
Other	0.2	0.1
TOTAL REVENUE	\$ 11.8	\$ 11.4

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

FUNCTION/PROGRAM EXPENSES	(In Millions)	
	2006	2005
Instruction	\$ 6.5	\$ 6.1
Support Services	3.6	3.5
Food Services	0.5	0.4
Athletics	0.3	0.3
Interest on Long-Term Debt	0.4	0.4
Depreciation (unallocated)	0.5	0.5
TOTAL FUNCTION/PROGRAM EXPENSES	11.8	11.2
INCREASE IN NET ASSETS	\$ 0.0	\$ 0.2

The School District experienced an increase in net assets of approximately \$60 thousand. Key reasons for the change in net assets were consistent revenues and limiting expenditures. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2.1 million, which is a decrease of \$1.0 million from last year. The primary reasons for the decrease are capital project expenditures. The General Fund, the principal operating fund, saw fund balance decrease \$257,512 to \$1,768,141, which is less than the budgeted decrease of \$482,290.

- Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$17,469.
- Combined, the Debt Service Funds showed a fund balance increase of \$19,154. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

General Fund Budgetary Highlights

The district has maintained a very conservative approach to budgeting after experiencing two years of executive cuts. At the time that the original budget was prepared, the amount of the per student foundation allowance was unknown. The preliminary budget was based on a \$100 per student increase and in actual fact the increase was \$175 per student, thereby generating additional revenue. Additionally, there was some savings in retirement costs over what had been projected. This was offset by a loss of approximately 16 students. However, the net impact resulted in a reduction of the projected deficit for the year.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2006, the School District had \$15.4 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$906,190 or 6 percent, from last year.

	<u>2006</u>	<u>2005</u>
Land and Improvements	\$ 2,019,727	\$ 2,019,727
Buildings and Improvements	11,799,618	11,004,387
Buses and Other Vehicles	794,559	844,221
Furniture and Equipment	<u>772,670</u>	<u>612,049</u>
Total Capital Assets	<u>15,386,574</u>	<u>14,480,384</u>
Less Accumulated Depreciation	<u>5,495,146</u>	<u>5,057,382</u>
Net Capital Assets	<u>\$ 9,891,428</u>	<u>\$ 9,423,002</u>

The additions for this year included a new library addition and technology. No Debt was issued for these additions.

Debt

At the end of this year, the School District had \$8.2 million in bonds and loans outstanding versus \$8.8 million in the previous year - a decrease of 7 percent. Debt consisted of the following:

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 8,193,211	\$ 8,732,356
Bus Loans	<u>31,731</u>	<u>113,171</u>
	<u>\$ 8,224,942</u>	<u>\$ 8,845,527</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$8.2 million is significantly below the statutorily imposed limit.

Economic Factors And Next Year's Budgets And Rates

Our elected officials and administration considered many factors when setting the School District's 2006-07 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count (using the two separate count days) times the per student foundation allocation. The blended count for the 2006-07 school year is 25 percent of the count from February 2006, and 75 percent of the count from September 2006. The 2006-07 fiscal year budget was based on an estimate of students that will be enrolled in September 2006. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the end of the 2005-2006 school year, we anticipate that the fall student count will decrease by an additional 14 students from the spring 2006 student count. This is a reduction of 35 students from the fall of 2005. Once the final student count and related per pupil funding is validated, the State law requires the School District to amend the budget as actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hanover-Horton School District with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 237 Farview Street, Horton, Michigan 49246.

HANOVER-HORTON SCHOOL DISTRICT

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS	Governmental Activities	
	2006	2005
Current Assets		
Cash and Cash Equivalents	\$ 1,560,346	\$ 2,525,490
Due From Other Governmental Units	1,603,201	1,609,920
Accounts Receivable	10,146	9,572
Inventories	3,471	4,230
Prepaid Expenditures	6,496	---
Total Current Assets	<u>3,183,660</u>	<u>4,149,212</u>
Non-Current Assets		
Capital Assets	15,386,574	14,480,384
Less: Accumulated Depreciation	<u>-5,495,146</u>	<u>-5,057,382</u>
Total Non-Current Assets	<u>9,891,428</u>	<u>9,423,002</u>
TOTAL ASSETS	<u>\$ 13,075,088</u>	<u>\$ 13,572,214</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 6,919	\$ 3,817
Accrued Salaries and Expenses	1,067,635	1,001,212
Accrued Interest	56,359	69,781
Bonds and Loans Payable, Due within One Year	<u>541,207</u>	<u>620,585</u>
Total Current Liabilities	<u>1,672,120</u>	<u>1,695,395</u>
Non-Current Liabilities		
Bonds Payable	7,672,866	8,193,211
Loans Payable	<u>10,869</u>	<u>31,731</u>
Total Non-Current Liabilities	<u>7,683,735</u>	<u>8,224,942</u>
TOTAL LIABILITIES	<u>9,355,855</u>	<u>9,920,337</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,610,127	577,785
Restricted for Debt Service	139,107	119,953
Restricted for Capital Projects	107,469	921,657
Unrestricted	<u>1,862,530</u>	<u>2,032,482</u>
TOTAL NET ASSETS	<u>3,719,233</u>	<u>3,651,877</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,075,088</u>	<u>\$ 13,572,214</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	Program Revenues		Governmental Activities		
	Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets		
Expenses			2006	2005	
FUNCTIONS/PROGRAMS					
Governmental Activities					
Instruction	\$ 6,496,357	\$ 222,373	\$ 241,293	\$ -6,032,691	\$ -5,666,478
Support Services	3,548,240	118,588	90,105	-3,339,547	-3,261,985
Food Services	453,463	293,374	173,620	13,531	14,235
Athletics	310,165	62,469	---	-247,696	-237,820
Community Services	33,461	36,428	---	2,967	-8,016
Interest on Long-Term Debt	380,971	---	34,938	-346,033	-407,080
Depreciation (Unallocated)	498,926	---	---	-498,926	-469,071
Total Governmental Activities	\$ 11,721,583	\$ 733,232	\$ 539,956	-10,448,395	-10,036,215
General Revenue					
Taxes					
Property Taxes, Levied for General Operations			806,281	736,969	
Property Taxes, Levied for Debt Service			891,656	713,811	
State of Michigan Aid, Unrestricted			8,661,001	8,702,935	
Interest Earnings			79,410	51,304	
Other			77,403	35,089	
Total General Revenue			10,515,751	10,240,108	
CHANGE IN NET ASSETS			67,356	203,893	
NET ASSETS - BEGINNING OF YEAR			3,651,877	3,447,984	
NET ASSETS - END OF YEAR			\$ 3,719,233	\$ 3,651,877	

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Debt Service	Capital Projects	Other Non-Major Governmental Funds	2006 Total Governmental Funds	2005 Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,176,297	\$ 134,001	\$ 107,469	\$ 142,579	\$ 1,560,346	\$ 2,525,490
Accounts Receivable	5,040	5,106	---	---	10,146	9,572
Due from Other Governmental Units	1,603,201	---	---	---	1,603,201	1,609,920
Due from Other Funds	47,365	---	---	---	47,365	39,769
Inventories	---	---	---	3,471	3,471	4,230
Prepaid Expenditures	6,496	---	---	---	6,496	---
TOTAL ASSETS	\$ 2,838,399	\$ 139,107	\$ 107,469	\$ 146,050	\$ 3,231,025	\$ 4,188,981
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 2,623	\$ ---	\$ ---	\$ 4,296	\$ 6,919	\$ 3,817
Accrued Salaries and Withholdings	1,067,635	---	---	---	1,067,635	1,001,212
Due to Other Funds	---	---	---	47,365	47,365	39,769
Deferred Revenue	---	---	---	---	---	---
TOTAL LIABILITIES	1,070,258	---	---	51,661	1,121,919	1,044,798
FUND BALANCES						
Reserved for Inventories	---	---	---	3,471	3,471	4,230
Reserved for Debt Service	---	139,107	---	---	139,107	119,953
Reserved for Capital Projects	---	---	107,469	---	107,469	921,657
Unreserved and Undesignated	1,768,141	---	---	---	1,768,141	2,025,653
Unreserved and Undesignated, Food Services	---	---	---	90,918	90,918	72,690
Unreserved and Undesignated, Athletics	---	---	---	---	---	---
TOTAL FUND BALANCES	1,768,141	139,107	107,469	94,389	2,109,106	3,144,183
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,838,399	\$ 139,107	\$ 107,469	\$ 146,050	\$ 3,231,025	\$ 4,188,981
TOTAL GOVERNMENTAL FUND BALANCES						\$ 2,109,106
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:						
Cost of the Capital Assets is						\$ 15,386,574
Accumulated Depreciation is						<u>-5,495,146</u>
						<u>9,891,428</u>
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund						
Bonds Payable						-8,193,211
Loans Payable						<u>-31,731</u>
Accrued interest is not included as a liability in governmental funds						<u>-56,359</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES						\$ 3,719,233

See Accompanying Notes to Financial Statements.

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2006

	General	Debt Service	Capital Projects	Other Non-Major Governmental Funds	2006 Totals	2005 Totals
REVENUE						
Local Sources	\$ 1,244,337	\$ 913,510	\$ 70,354	\$ 359,781	\$ 2,587,982	\$ 2,255,100
State Sources	8,786,579	34,938	---	34,011	8,855,528	8,868,933
Federal Sources	205,820	---	---	139,609	345,429	295,704
Miscellaneous	---	---	---	---	---	---
TOTAL REVENUE	10,236,736	948,448	70,354	533,401	11,788,939	11,419,737
EXPENDITURES						
Current						
Instruction	6,496,357	---	---	---	6,496,357	6,084,542
Supporting Services	3,548,240	---	---	763,628	4,311,868	4,218,465
Community Services	33,461	---	---	---	33,461	38,412
Debt Service	85,684	929,294	---	---	1,014,978	1,006,595
Capital Outlay	82,810	---	884,542	---	967,352	108,312
TOTAL EXPENDITURES	10,246,552	929,294	884,542	763,628	12,824,016	11,456,326
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-9,816	19,154	-814,188	-230,227	-1,035,077	-36,589
OTHER FINANCING SOURCES <USES>						
Loan Proceeds	---	---	---	---	---	---
Operating Transfers In	---	---	---	247,696	247,696	237,820
Operating Transfers Out	-247,696	---	---	---	-247,696	-237,820
TOTAL OTHER FINANCING SOURCES <USES>	-247,696	---	---	247,696	---	---
NET CHANGE IN FUND BALANCES	-257,512	19,154	-814,188	17,469	-1,035,077	-36,589
FUND BALANCES - BEGINNING OF YEAR	2,025,653	119,953	921,657	76,920	3,144,183	3,180,772
FUND BALANCES - END OF YEAR	\$ 1,768,141	\$ 139,107	\$ 107,469	\$ 94,389	\$ 2,109,106	\$ 3,144,183

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -1,035,077**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-498,926	
Capital Outlay	<u>967,352</u>	
		468,426

- Loan proceeds recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt) ---

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 13,422

- Repayments of bond and loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 620,585

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 67,356**

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

ASSETS	2006	2005
Cash and Cash Equivalents	\$ 244,562	\$ 207,759
Accounts Receivable	---	---
TOTAL ASSETS	\$ 244,562	\$ 207,759
LIABILITIES		
Due to Others	\$ ---	\$ ---
Due to Student Groups	244,562	207,759
TOTAL LIABILITIES	\$ 244,562	\$ 207,759

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hanover-Horton School District is located in Jackson County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Debt Retirement Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Retirement Funds maintained by the School District are to retire outstanding 1999, 2002 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The school maintains one capital project fund.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Jackson and Hillsdale Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriate for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in one financial institution. At June 30, 2006, the book value of the School District's deposits was \$-176,367 and the bank balance was \$83,636. Of the bank balance, \$83,636 was covered by federal depository insurance and \$0 was uninsured and uncollateralized.

Statutes authorize the School District to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, U.S. government or federal agency obligation repurchase agreements, obligations of the State, Certificates of Deposit, Commercial paper rated prime, Bankers' acceptances, and Mutual funds and Investment pools composed entirely of instruments that are legal for direct investment by a School District.

The School District invests surplus funds with the Comerica Bank School Cash Investment Fund in investment trust accounts in accordance with Sections 622, 1221, and 1223 of the School Code.

Investments are stated at cost, which approximates market value. The Comerica Bank School Cash Investment Fund is categorized as a mutual fund. Each School District owns a prorata share of each investment or deposit, which is held in the name of the fund.

The amount of investments as of June 30, 2006, which are not required to be categorized as to level of risk are as follows:

	<u>Carrying Amount</u>	<u>Book Amount</u>
General Fund	\$ 1,249,989	\$ 1,321,437
Cafeteria Fund	159,744	159,744
Debt Retirement Fund	133,386	133,386
Capital Projects Fund	107,439	107,439
Trust and Agency Fund	259,270	259,270
	<u>\$ 1,909,828</u>	<u>\$ 1,981,276</u>

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

B. TYPES OF DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the District's name.
2. Uninsured or unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

NOTE 3 - INVENTORY

There is \$3,471 of inventory in the Special Revenue Fund - Food Service, with \$140 of this amount representing inventory of Federal commodities.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2006, is comprised of the following:

General Fund

State of Michigan - State Aid	\$ 1,598,666
- SPSR	1,116
- Improving Teacher Quality	<u>3,419</u>
Total Due From Other Governmental Units	<u>\$ 1,603,201</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2006, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	\$ 24,575	Food Service	\$ 24,575
General Fund	<u>22,790</u>	Athletic	<u>22,790</u>
	<u>\$ 47,365</u>		<u>\$ 47,365</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 1,150	\$ ---	\$ ---	\$ 1,150
Capital assets being depreciated:				
Land improvement	2,018,577	---	---	2,018,577
Building and building improvements	11,004,387	795,231	---	11,799,618
Buses and other vehicles	844,221	---	49,662	794,559
Furniture and equipment	612,049	172,121	11,500	772,670
Subtotal	14,479,234	967,352	61,162	15,385,424
Accumulated depreciation:				
Land Improvements	120,844	40,372	---	161,216
Building and building improvements	3,981,047	285,781	---	4,266,828
Buses and other vehicles	494,314	79,205	49,662	523,857
Furniture and equipment	461,177	93,568	11,500	543,245
Subtotal	5,057,382	498,926	61,162	5,495,146
Net capital assets being depreciated	9,421,852	468,426	---	9,890,278
Net capital assets	\$ 9,423,002	\$ 468,426	\$ ---	\$ 9,891,428

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2006, of \$709,609 represents the unpaid portion of teacher contracts for the 2005-06 school year. On these salaries there are also fringe benefits payable at year-end totaling \$362,208.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2006, long-term debt changed as follows:

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bond Issue	Balance 6/30/05	Additional Debt	2005-06 Payments	Balance 6/30/06
1999 Debt	\$ 6,810,000	\$ ---	\$ 465,000	\$ 6,345,000
2002 Debt	1,855,000	---	50,000	1,805,000
Durant Debt	67,356	---	24,145	43,211
Comerica Bus Loan	22,396	---	22,396	---
Comerica Bus Loan	20,392	---	9,981	10,411
Comerica Bus Loan	31,369	---	10,049	21,320
Comerica Bus Loan	39,014	---	39,014	---
	<u>\$ 8,845,527</u>	<u>\$ ---</u>	<u>\$ 620,585</u>	<u>\$ 8,224,942</u>

Amounts needed over the next five years for debt principal payments are as follows:

	Bus Loans	1999 Refunding Debt	2002 Debt	Durant Debt	Total
2006-07	\$ 20,862	\$ 465,000	\$ 50,000	\$ 5,345	\$ 541,207
2007-08	10,869	465,000	75,000	5,600	556,469
2008-09	---	460,000	125,000	5,867	590,867
2009-10	---	455,000	155,000	6,147	616,147
2010-11	---	450,000	175,000	6,439	631,439
	<u>31,731</u>	<u>2,295,000</u>	<u>580,000</u>	<u>29,398</u>	<u>2,936,129</u>
2011 - Maturity	---	4,050,000	1,225,000	13,813	5,288,813
	<u>\$ 31,731</u>	<u>\$ 6,345,000</u>	<u>\$ 1,805,000</u>	<u>\$ 43,211</u>	<u>\$ 8,224,942</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2006, the rate was 16.34%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990 or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2006, the School District contributed \$994,934 to the Retirement System, which is 15.86% of current fiscal year covered compensation of \$6,274,031. The rate for the current contract year is 16.34%, which the School District paid on all covered compensation. Employees contributed an additional \$186,466 or 3.22% of eligible wages of \$5,789,518. Total wages of the district totaled \$6,342,436.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2004, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$46.3 billion. The total pension benefit obligation has increased by \$1.5 billion from September 30, 2003 to September 30, 2004.

The System's net assets available for benefits on that date (valued at market) were \$38.8 billion leaving an unfunded actuarial accrued liability of \$7.5 billion. Ten-year historical trend information is presented in the System's September 30, 2005, comprehensive annual financial report.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2006, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2006, are as follows:

1. \$3,471 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
2. The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2006, Unreserved General Fund Balance of \$1,768,141 compares to June 30, 2005, Unreserved General Fund Balance of \$2,025,653.

NOTE 12 - COMPENSATED ABSENCES

The School's policy is not to compensate employees for vacation time not used during the school year. No provision is made in these financial statements for absences. Accumulated sick pay policies are as follows:

Teachers

Credited with 11 sick leave days per year; maximum accumulation of 130 days allowed; amounts over 130 days not used are paid at a rate of \$55 per day. A retirement leave benefit of \$55 per day (maximum \$750) is paid to teachers, employed by the District for ten years or more, retiring from the District.

Support Personnel

Credited with one day per month for months worked; maximum accumulation of 120 days allowed; amounts over 120 days not used are paid at a rate of 50% of the employee's daily rate. A retirement leave benefit of 50% of the daily rate (maximum \$500) is paid upon retirement from the District.

REQUIRED SUPPLEMENTAL INFORMATION

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 1,128,620	\$ 1,218,444	\$ 1,244,337	\$ 25,893
State Sources	8,989,955	8,851,113	8,786,579	-64,534
Federal Sources	232,254	222,287	205,820	-16,467
Other Sources	---	---	---	---
TOTAL REVENUE	10,350,829	10,291,844	10,236,736	-55,108
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,750,979	5,883,310	5,839,885	43,425
Added Needs	828,442	660,178	656,472	3,706
Supporting Services				
Pupil	395,467	518,418	468,029	50,389
Instructional Staff	260,670	185,666	186,815	-1,149
Administration	1,249,809	1,285,036	1,267,987	17,049
Business Services	1,661,327	1,794,445	1,711,093	83,352
Community Services	41,288	39,033	33,461	5,572
Capital Outlay	39,000	85,684	82,810	2,874
Debt Service	86,492	---	---	---
Other Uses - Operating Transfers	322,188	322,364	247,696	74,668
TOTAL EXPENDITURES	10,635,662	10,774,134	10,494,248	279,886
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-284,833	-482,290	-257,512	224,778
BUDGETARY FUND BALANCE - JULY 1, 2005	2,025,653	2,025,653	2,025,653	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 1,740,820	\$ 1,543,363	\$ 1,768,141	\$ 224,778

BUDGETARY COMPARISON SCHEDULE - DEBT FUNDS

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 865,977	\$ 912,897	\$ 913,510	\$ 613
State Sources	---	---	34,938	34,938
Federal Sources	---	---	---	---
Other Sources	---	---	---	---
TOTAL REVENUE	865,977	912,897	948,448	35,551
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	---	---	---	---
Debt Service	895,939	894,289	929,294	-35,005
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	895,939	894,289	929,294	-35,005
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES				
	-29,962	18,608	19,154	546
BUDGETARY FUND BALANCE - JULY 1, 2005				
	119,953	119,953	119,953	---
BUDGETARY FUND BALANCE - JUNE 30, 2006				
	\$ 89,991	\$ 138,561	\$ 139,107	\$ 546

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECT FUND

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Local Sources	\$ 4,900	\$ 69,900	\$ 70,354	\$ 454
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Other Sources	---	---	---	---
TOTAL REVENUE	4,900	69,900	70,354	454
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	850,000	969,000	884,542	84,458
Debt Service	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	850,000	969,000	884,542	84,458
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-845,100	-899,100	-814,188	84,912
BUDGETARY FUND BALANCE - JULY 1, 2005	921,657	921,657	921,657	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 76,557	\$ 22,557	\$ 107,469	\$ 84,912

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	\$ 806,942	\$ 806,281	\$ -661	\$ 736,969
Interest and Penalties - Delinquent Taxes	5,367	5,537	170	7,671
Tuition	2,650	3,125	475	5,525
Sale of School Property	---	---	---	500
Refunds	10,725	13,228	2,503	13,451
Interest Earned	35,500	42,401	6,901	21,851
Rental of School Facilities	8,500	8,500	---	8,997
Transportation	11,000	15,204	4,204	18,103
Kids Club Fees	33,750	36,428	2,678	30,396
Career Prep	23,000	23,000	---	23,001
Literacy	39,142	39,142	---	---
Other	2,620	2,626	6	12
Data Processing Support	20,000	29,617	9,617	27,817
Special Education	219,248	219,248	---	281,346
TOTAL REVENUE FROM LOCAL SOURCES	1,218,444	1,244,337	25,893	1,175,639
STATE SOURCES				
Non Plaintiff Durant Settlement	10,543	10,543	---	10,543
State Aid	8,725,537	8,661,001	-64,536	8,702,935
Adv. and Acc. Learning	---	---	---	193
Special Education	22,448	22,449	1	22,239
At Risk	92,585	92,586	1	99,956
TOTAL REVENUE FROM STATE SOURCES	8,851,113	8,786,579	-64,534	8,835,866
FEDERAL SOURCES				
Title II - D	2,122	1,952	-170	---
Title I	126,258	126,258	---	131,193
Title II - A	86,719	71,211	-15,508	51,480
Drug Free	1,800	---	-1,800	200
Title V	1,431	1,326	-105	1,127
Homeland Security	3,957	3,957	---	442
SPSR	---	1,116	1,116	---
TOTAL REVENUE FROM FEDERAL SOURCES	222,287	205,820	-16,467	184,442
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 10,291,844	\$ 10,236,736	\$ -55,108	\$ 10,195,947

HANOVER-HORTON SCHOOL DISTRICT

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Instruction				
BASIC PROGRAMS				
Elementary School	\$ 2,134,271	\$ 2,120,434	\$ 13,837	\$ 1,982,619
Middle School	1,555,289	1,549,881	5,408	1,461,283
High School	2,117,274	2,094,781	22,493	1,898,283
Summer School	76,476	74,789	1,687	98,240
Other	---	---	---	11,999
TOTAL BASIC PROGRAMS	5,883,310	5,839,885	43,425	5,452,424
ADDED NEEDS				
Special Education	533,917	530,214	3,703	500,925
Compensatory Education	126,261	126,258	3	131,193
Other	---	---	---	---
TOTAL ADDED NEEDS	660,178	656,472	3,706	632,118
Total Instruction	6,543,488	6,496,357	47,131	6,084,542
Supportive Services				
PUPIL				
Guidance	204,602	201,653	2,949	224,168
Extra Duties/Aides	223,457	191,887	31,570	172,817
Staff Development	90,359	74,489	15,870	46,683
TOTAL PUPIL	518,418	468,029	50,389	443,668
INSTRUCTIONAL STAFF				
Library	185,666	186,815	-1,149	178,306
Audio Visual	---	---	---	---
TOTAL INSTRUCTIONAL STAFF	185,666	186,815	-1,149	178,306
ADMINISTRATION				
Board of Education	126,238	120,210	6,028	114,767
Central Administration	400,291	397,356	2,935	355,181
School Administration	758,507	750,421	8,086	719,235
TOTAL ADMINISTRATION	\$ 1,285,036	\$ 1,267,987	\$ 17,049	\$ 1,189,183

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Supportive Services - Continued				
BUSINESS SERVICES				
Operation and Maintenance	\$ 1,084,419	\$ 1,032,923	\$ 51,496	\$ 1,038,453
Pupil Transportation	611,610	588,640	22,970	664,842
Technology	74,416	74,482	-66	67,661
Other	24,000	15,048	8,952	23,191
TOTAL BUSINESS SERVICES	1,794,445	1,711,093	83,352	1,794,147
Total Supportive Services	3,783,565	3,633,924	149,641	3,605,304
Community Services				
Kids Club	33,865	33,461	404	30,501
Other	5,168	---	5,168	7,911
Total Community Services	39,033	33,461	5,572	38,412
Capital Outlay				
Site Improvements	---	---	---	---
Other	85,684	82,810	2,874	45,501
Total Capital Outlay	85,684	82,810	2,874	45,501
TOTAL EXPENDITURES	\$ 10,451,770	\$ 10,246,552	\$ 205,218	\$ 9,773,759
EXCESS REVENUE OVER EXPENDITURES	-159,926	-9,816	150,110	422,188
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	---	---	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	-322,364	-247,696	74,668	-237,820
TOTAL OTHER FINANCING SOURCES <USES>	-322,364	-247,696	74,668	-237,820
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -482,290	-257,512	\$ 224,778	\$ 184,368
FUND BALANCE - JULY 1, 2005		2,025,653		
FUND BALANCE - JUNE 30, 2006		\$ 1,768,141		

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash and Investments	\$ 119,789	\$ 22,790	\$ 142,579
Due From Other Governmental Units	---	---	---
Due From Other Funds	---	---	---
Prepaid Expenses	---	---	---
Inventory	3,471	---	3,471
TOTAL ASSETS	\$ 123,260	\$ 22,790	\$ 146,050
 LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ 24,575	\$ 22,790	\$ 47,365
Accounts Payable	4,296	---	4,296
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	28,871	22,790	51,661
 FUND EQUITY			
Fund Balance - Reserved for Inventory	3,471	---	3,471
Fund Balance - Unreserved	90,918	---	90,918
TOTAL FUND EQUITY	94,389	---	94,389
TOTAL LIABILITIES AND FUND EQUITY	\$ 123,260	\$ 22,790	\$ 146,050

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
<u>Food Services</u>			
Goods Sold	\$ 6,050	\$ 6,858	\$ 808
Student Meals	197,000	195,762	-1,238
Adult Meals	13,800	15,005	1,205
Ala Carte Meals	60,100	58,093	-2,007
Breakfast	13,000	14,520	1,520
Vending Machine Sales	2,500	2,887	387
State Aid	20,538	34,011	13,473
Federal Aid	116,000	118,025	2,025
Federal USDA Commodities in Kind	10,000	21,584	11,584
Other Income	10	249	239
Interest Income	3,655	3,938	283
<u>Athletic Activities</u>			
Admission to Games	---	---	---
TOTAL REVENUE	442,653	470,932	28,279
EXPENDITURES			
Salaries	138,351	138,301	50
Fringe Benefits	100,090	100,122	-32
Dues and Fees	1,210	1,110	100
Purchased Services	1,000	954	46
Food and Supplies	213,161	207,586	5,575
Travel and Conferences	1,050	261	789
Miscellaneous	1,200	2,142	-942
Repairs	3,125	2,987	138
Sales Tax	---	---	---
Capital Outlay	---	---	---
TOTAL EXPENDITURES	\$ 459,187	\$ 453,463	\$ 5,724

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 6,050	\$ 6,858	\$ 808
---	---	---	197,000	195,762	-1,238
---	---	---	13,800	15,005	1,205
---	---	---	60,100	58,093	-2,007
---	---	---	13,000	14,520	1,520
---	---	---	2,500	2,887	387
---	---	---	20,538	34,011	13,473
---	---	---	116,000	118,025	2,025
---	---	---	10,000	21,584	11,584
---	---	---	10	249	239
---	---	---	3,655	3,938	283
62,464	62,469	5	62,464	62,469	5
62,464	62,469	5	505,117	533,401	28,284
184,740	184,912	-172	323,091	323,213	-122
55,731	55,784	-53	155,821	155,906	-85
9,108	8,933	175	10,318	10,043	275
21,032	21,032	---	22,032	21,986	46
23,015	19,912	3,103	236,176	227,498	8,678
9,677	9,348	329	10,727	9,609	1,118
11,515	10,037	1,478	12,715	12,179	536
300	207	93	3,425	3,194	231
---	---	---	---	---	---
---	---	---	---	---	---
\$ 315,118	\$ 310,165	\$ 4,953	\$ 774,305	\$ 763,628	\$ 10,677

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	<u>\$ -16,534</u>	<u>\$ 17,469</u>	<u>\$ 34,003</u>
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	16,534	---	-16,534
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	<u>16,534</u>	<u>---</u>	<u>-16,534</u>
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ ---</u>	17,469	<u>\$ 17,469</u>
FUND BALANCE - BEGINNING OF YEAR		<u>76,920</u>	
FUND BALANCE - END OF YEAR		<u>\$ 94,389</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -252,654	\$ -247,696	\$ 4,958	\$ -269,188	\$ -230,227	\$ 38,961
252,654	247,696	-4,958	269,188	247,696	-21,492
---	---	---	---	---	---
252,654	247,696	-4,958	269,188	247,696	-21,492
<u>\$ ---</u>	<u>---</u>	<u>\$ ---</u>	<u>\$ ---</u>	17,469	<u>\$ 17,469</u>
	<u>---</u>			<u>76,920</u>	
	<u>\$ ---</u>			<u>\$ 94,389</u>	

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006

	Debt V	Debt VI	Durant	Totals
ASSETS				
Cash and Investments	\$ 108,464	\$ 25,537	\$ ---	\$ 134,001
Due from other Funds	---	---	---	---
Accounts Receivable	4,349	757	---	5,106
TOTAL ASSETS	\$ 112,813	\$ 26,294	\$ ---	\$ 139,107
 LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	5
TOTAL LIABILITIES	---	---	---	5
 FUND EQUITY				
Fund Balance	112,813	26,294	---	139,107
TOTAL LIABILITIES AND FUND EQUITY	\$ 112,813	\$ 26,294	\$ ---	\$ 139,107

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Debt V		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 760,977	\$ 761,164	\$ 187
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,311	3,553	242
Earned Interest	14,800	14,914	114
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	779,088	779,631	543
EXPENDITURES			
Principal on Bonds	465,000	465,000	---
Interest on Bonds	299,883	299,882	1
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	1,300	1,767	-467
TOTAL EXPENDITURES	766,183	766,649	-466
EXCESS REVENUE OVER EXPENDITURES	12,905	12,982	77
OTHER FINANCING SOURCES			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 12,905	12,982	\$ 77
FUND BALANCE - BEGINNING OF YEAR		99,831	
FUND BALANCE - END OF YEAR		\$ 112,813	

Debt VI			Durant		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 130,462	\$ 130,492	\$ 30	\$ ---	\$ ---	\$ ---
---	---	---	---	---	---
562	584	22	---	---	---
2,785	2,803	18	---	---	---
---	---	---	---	34,938	34,938
---	---	---	---	---	---
133,809	133,879	70	---	34,938	34,938
50,000	50,000	---	---	24,145	-24,145
77,356	77,355	1	---	10,793	-10,793
---	---	---	---	---	---
750	352	398	---	---	---
128,106	127,707	399	---	34,938	-34,938
5,703	6,172	469	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
\$ 5,703	6,172	\$ 469	\$ ---	---	\$ ---
	20,122			---	
	\$ 26,294			\$ ---	

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Total		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 891,439	\$ 891,656	\$ 217
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,873	4,137	264
Earned Interest	17,585	17,717	132
State Aid Revenue	---	34,938	34,938
Miscellaneous	---	---	---
TOTAL REVENUE	912,897	948,448	35,551
EXPENDITURES			
Principal on Bonds	515,000	539,145	-24,145
Interest on Bonds	377,239	388,030	-10,791
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	2,050	2,119	-69
TOTAL EXPENDITURES	894,289	929,294	-35,005
EXCESS REVENUE OVER <UNDER> EXPENDITURES	18,608	19,154	546
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ 18,608	19,154	\$ 546
FUND BALANCE - BEGINNING OF YEAR		119,953	
FUND BALANCE - END OF YEAR		\$ 139,107	

CAPITAL PROJECT FUND

HANOVER-HORTON SCHOOL DISTRICT

Capital Project Fund

COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and Investments	\$ 107,469	\$ 921,657
Accounts Receivable	---	---
Due from Other Funds	---	---
TOTAL ASSETS	<u>\$ 107,469</u>	<u>\$ 921,657</u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
TOTAL LIABILITIES	<u>---</u>	<u>---</u>
FUND EQUITY		
Fund Balance	<u>107,469</u>	<u>921,657</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 107,469</u>	<u>\$ 921,657</u>

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---
Grants	55,000	55,000	---	---
Earned Interest	14,900	15,354	454	17,624
Miscellaneous	---	---	---	---
TOTAL REVENUE	69,900	70,354	454	17,624
EXPENDITURES				
Capital Outlay	969,000	884,542	84,458	62,811
TOTAL EXPENDITURES	969,000	884,542	84,458	62,811
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-899,100	-814,188	84,912	-45,187
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -899,100	-814,188	\$ 84,912	\$ -45,187
FUND BALANCE - BEGINNING OF YEAR		921,657		
FUND BALANCE - END OF YEAR		\$ 107,469		

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2006

ASSETS

Cash and Investments	\$ 244,562
Accounts Receivable	---
Due From Other Funds	---

TOTAL ASSETS \$ 244,562

LIABILITIES

Due to Other Funds	\$ ---
Due to Student Groups	<u>244,562</u>

TOTAL LIABILITIES \$ 244,562

HANOVER - HORTON SCHOOL DISTRICT

Agency Funds

SUMMARY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2006

	Balance 6/30/05	Receipts	Disbursements	Balance 6/30/06
ASSETS				
Cash and Investments	\$ 207,759	\$ 1,474,068	\$ 1,437,265	\$ 244,562
Accounts Receivable	---	---	---	---
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 207,759	\$ 1,474,068	\$ 1,437,265	\$ 244,562
LIABILITIES				
Due to Other Funds	\$ ---	\$ ---	\$ ---	\$ ---
Due to Student Groups	207,759	1,474,068	1,437,265	244,562
TOTAL LIABILITIES	\$ 207,759	\$ 1,474,068	\$ 1,437,265	\$ 244,562

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
INTERNAL ACTIVITIES FUND
FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to Student Groups 6/30/05	Receipts	Disbursements	Due to Student Groups 6/30/06
Academic Boosters	\$ 1,468	\$ 1,000	\$ 1,249	\$ 1,219
Academic Service Learning	2,647	1,674	2,647	1,674
After Prom party	821	---	---	821
Alumni Account	7,343	50	200	7,193
Athletic JAVA	174	---	---	174
Athletic Tournaments	-214	21,227	17,086	3,927
Athletic Vending	2,392	17,334	15,910	3,816
Band Account	152	1,810	1,870	92
Band Fundraising	1,245	10,388	10,276	1,357
Benevolence	15	---	---	15
Calendar Sales	1,549	1,250	1,263	1,536
Cheerleaders	120	4,020	3,387	753
Choir	266	1,288	1,067	487
Citizens for Education	---	326	326	---
Class of 2005	5,098	1,365	4,362	2,101
2006	4,980	44	2,423	2,601
2007	5,489	13,874	11,399	7,964
2008	4,772	453	500	4,725
2009	561	12,937	10,220	3,278
Competitive Grant (JCF)	180	---	---	180
Counseling	100	---	---	100
Drama Club	3,653	2,278	2,447	3,484
Drop-In Computer Lab	308	---	---	308
Earnings on Investments	9,652	8,149	9,797	8,004
Educational Fund Grants	947	23,737	24,575	109
Elementary	13,443	7,431	3,973	16,901
Elementary Classroom	643	926	1,034	535
Elementary Field Trips	2,756	3,999	1,152	5,603
Elementary Girls Basketball	3,098	17,504	14,024	6,578
Elementary Pop Fund	4,556	1,139	965	4,730
Elementary Staff Retirement	226	---	---	226
Elementary Student Council	3,465	11,040	10,925	3,580
H-H Concessions	---	16,523	10,699	5,824
H-H Renaissance Account	2,791	2,141	1,681	3,251
H-H Music Boosters	354	8,643	6,774	2,223
HS ARC Youth Club	---	492	42	450
HS Art	33	1,150	217	966
HS Baseball	464	174	620	18
HS Baton	19	---	---	19

HANOVER - HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to Student Groups 6/30/05	Receipts	Disbursements	Due to Student Groups 6/30/06
HS Bottle Refund	397	1,105	550	952
HS Business Manage Class	1,108	11,097	11,139	1,066
HS Cross Country	--	1,258	432	826
HS Dance Club	128	---	128	---
HS English Dept	---	500	---	500
HS Football	679	2,040	2,334	385
HS French Club	480	---	304	176
HS Human Relations	2,956	---	---	2,956
HS Hurricane Relief Fund	---	3,792	3,792	---
HS Journalism	1,712	340	290	1,762
HS Miscellaneous	5,899	702	3,128	3,473
HS Music and Games	195	---	195	---
HS National Honor Society	716	1,338	1,006	1,048
HS Peer Listening	53	---	53	---
HS Portfolio Supplies	590	---	---	590
HS Tech Lab	498	164	---	662
HS Ski Club	194	---	194	---
HS Softball	96	579	589	86
HS Spanish Club	299	901	964	236
HS Student Council	12,712	4,600	6,637	10,675
HS Teacher's Lounge	1,422	776	1,224	974
HS Track	---	44	---	44
HS Web Site Develop	230	---	---	230
HS Weight Room	537	---	537	---
HS Wrestling	6	---	---	6
HS Yearbook	3,014	4,169	4,541	2,642
Independent Living	174	87	101	160
JCF Youth Mini Grant	73	---	---	73
Junior Pro Boys Basketball	4,085	5,911	8,826	1,170
Kids Club	9,995	---	2,567	7,428
Ladd Scholarship	430	---	333	97
Library Fund	4,256	16,453	16,789	3,920
Loss and Damage	8,530	2,914	810	10,634
6 th Grade Basketball Program	2,027	1,925	2,680	1,272
Maintenance Rewards and Recognition	330	100	50	380
M. Bytnar Memorial Fund	400	---	18	382

ACTIVITY	Due to Student Groups 6/30/05	Receipts	Disbursements	Due to Student Groups 6/30/06
MS Activity	11,407	21,944	24,970	8,381
MS Art Fund	59	---	10	49
MS Cheerleading	43	4,177	3,389	831
MS Choir	2,809	3,536	2,644	3,701
MS Lego Club	180	---	---	180
MS Miscellaneous	3,868	3,882	5,089	2,661
MS Pop Machine	6,827	2,705	4,108	5,424
MS Popcorn Repair Fund	423	---	---	423
MS Rewards	1,474	2,076	1,939	1,611
MS Running Club	347	3,024	3,307	64
MS Skills Class	179	---	---	179
MS Student Council	9,636	1,124	4,817	5,943
MS Weight Training	753	---	---	753
MS Yearbook	873	2,694	2,559	1,008
McGee Scholarship L.E.	---	6,104	4,000	2,104
New Library	---	1,610	1,151	459
New Press Box	340	---	---	340
Night Lights	748	5,691	4,260	2,179
Destination Imagination	75	---	---	75
Pop Machine	2,034	7,501	6,733	2,802
PTA	7	---	---	7
RIOT Account	846	---	---	846
Robbie Curtis Charitable	4	1,000	---	1,004
Ruth Creps Scholarship	8,000	1,140,135	1,114,962	33,173
Soccer	613	9,269	7,681	2,201
Student Teacher Fund	---	390	---	390
Summer Lights	769	---	---	769
Supplies R Us	4,488	2,045	2,325	4,208
Volleyball Boosters	170	---	---	170
Wall of Fame	1,000	---	---	1,000
Total	\$ 207,759	\$ 1,474,068	\$ 1,437,265	\$ 244,562

STATEMENTS OF INDEBTEDNESS

BUS LOANS
YEAR ENDED JUNE 30, 2006

Balance Outstanding - June 30, 2006 \$ 31,731

Balance payable as follows:

<u>LOAN</u>	<u>YEAR</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
0010-9	2006-07	4.00%	\$ 10,451	\$ 853	\$ 11,304
	2007-08	4.00%	10,869	435	11,304
			<u>21,320</u>	<u>1,288</u>	<u>22,608</u>
0009-1	2006-07	4.30%	<u>10,411</u>	<u>448</u>	<u>10,859</u>
TOTAL			<u><u>\$ 31,731</u></u>	<u><u>\$ 1,736</u></u>	<u><u>\$ 33,467</u></u>

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

1999 REFUNDING DEBT

YEAR ENDED JUNE 30, 2006

Balance Outstanding - June 30, 2006

\$ 6,345,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006 - 07	4.05%	\$ 281,283	\$ 465,000	\$ 746,283
2007 - 08	4.10%	262,450	465,000	727,450
2008 - 09	4.15%	243,385	460,000	703,385
2009 - 10	4.20%	224,295	455,000	679,295
2010 - 11	4.30%	205,185	450,000	655,185
2011 - 12	4.35%	185,835	445,000	630,835
2012 - 13	4.40%	166,477	440,000	606,477
2013 - 14	4.50%	147,118	465,000	612,118
2014 - 15	4.55%	126,193	460,000	586,193
2015 - 16	4.60%	105,262	455,000	560,262
2016 - 17	4.65%	84,333	450,000	534,333
2017 - 18	4.70%	63,407	450,000	513,407
2018 - 19	4.75%	42,258	445,000	487,258
2019 - 20	4.80%	21,120	440,000	461,120
		<u>\$ 2,158,601</u>	<u>\$ 6,345,000</u>	<u>\$ 8,503,601</u>

DURANT DEBT

YEAR ENDED JUNE 30, 2006

Balance Outstanding - June 30, 2006

\$ 43,211

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006 - 07	4.761%	\$ 2,057	\$ 5,345	\$ 7,402
2007 - 08	4.761%	1,804	5,600	7,404
2008 - 09	4.761%	1,537	5,867	7,404
2009 - 10	4.761%	1,257	6,147	7,404
2010 - 11	4.761%	965	6,439	7,404
2011 - 12	4.761%	657	6,746	7,403
2012 - 13	4.761%	336	7,067	7,403
		<u>\$ 8,613</u>	<u>\$ 43,211</u>	<u>\$ 51,824</u>

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

2002 DEBT

YEAR ENDED JUNE 30, 2006

Balance Outstanding - June 30, 2006

\$ 1,805,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006 - 07	3.25%	\$ 75,855	\$ 50,000	\$ 125,855
2007 - 08	3.50%	74,230	75,000	149,230
2008 - 09	3.65%	71,605	125,000	196,605
2009 - 10	3.85%	67,043	155,000	222,043
2010 - 11	4.00%	61,075	175,000	236,075
2011 - 12	4.10%	54,075	175,000	229,075
2012 - 13	4.25%	46,900	---	46,900
2013 - 14	4.25%	46,900	350,000	396,900
2014 - 15	4.50%	32,025	---	32,025
2015 - 16	4.50%	32,025	350,000	382,025
2016 - 17	4.65%	16,275	---	16,275
2017 - 18	4.65%	16,275	350,000	366,275
		<u>\$ 594,283</u>	<u>\$ 1,805,000</u>	<u>\$ 2,399,283</u>

Karl L. Drake, P.C.
Certified Public Accountant

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of Hanover-Horton School District as of and for the year ended June 30, 2006, and have issued our report thereon dated July 17, 2006. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hanover-Horton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hanover-Horton School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, PC
Certified Public Accountant

July 17, 2006

Karl L. Drake, P.C.
Certified Public Accountant

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Email: kldrake@voyager.net

July 17, 2006

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of Hanover-Horton School District for the year ended June 30, 2006, and have issued our report thereon dated July 17, 2006. In planning and performing our audit of the financial statements, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Hanover-Horton School District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations, and to make suggestions to improve upon the existing internal control structure.

Financial Overview

The General Fund finished the year with a fund balance of \$1,768,141. This is a decrease of \$257,512 over the prior year balance. The cafeteria fund ended with a fund balance of \$94,389, which is an increase of \$17,469 over the prior year balance. The balance in the debt retirement accounts increased by \$19,154 to \$139,107. The capital projects fund ended the year with a fund balance of \$107,469.

The District continues to be in a healthy financial position. This current year we are seeing an increase in per pupil funding from the State of Michigan, which should allow the District to remain financially stable.

Future Challenges

The District faces continuing challenges in maintaining its financial stability. Health care and retirement costs continue to increase. Student counts are declining due to Michigan's poor economy. Many Districts are facing considerable budget and program cuts to maintain financial solvency. Hanover-Horton Schools continue to be in good enough financial position to withstand these challenges in the short-term. Maintaining a balanced budget and monthly monitoring of financial activities will be important to maintaining long-term financial stability.

The above comments are intended for the use of the Board of Education and management of the Hanover-Horton School District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, CPA